

**SECOND HARVEST FOOD BANK OF SANTA CLARA
AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)**

**FINANCIAL STATEMENTS
INCLUDING SUPPLEMENTAL INFORMATION
ON FEDERAL FINANCIAL AWARDS**

**Year Ended June 30, 2007 with Comparative Totals
for the Year Ended June 30, 2006**

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

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SECTION I

FINANCIAL SECTION

FINANCIAL STATEMENTS

EMERITUS

Alexander W. Berger (1916-2005)
Griffith R. Lewis

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

Second Harvest Food Bank of Santa Clara and San Mateo Counties

(A California Nonprofit Public Benefit Corporation)

San Jose, California

We have audited the accompanying statement of financial position of Second Harvest Food Bank of Santa Clara and San Mateo Counties (a California nonprofit public benefit corporation) as of June 30, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's financial statements for the year ended June 30, 2006 and, in our report dated August 15, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank of Santa Clara and San Mateo Counties as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2007, on our consideration of Second Harvest Food Bank of Santa Clara and San Mateo Counties' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Berger/Lewis Accountancy Corporation

BERGER/LEWIS ACCOUNTANCY CORPORATION
San Jose, California
August 31, 2007

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

June 30, 2007 with Comparative Totals as of June 30, 2006

	OPERATING FUND		LAND, BUILDING AND EQUIPMENT FUND	TOTAL	
	Unrestricted	Temporarily Restricted		2007	2006
ASSETS					
Cash and Cash Equivalents	\$ 2,559,608	\$ 166,740	\$ -	\$ 2,726,348	\$ 3,679,589
Accounts Receivable	15,552	-	-	15,552	8,020
Grants Receivable	204,791	-	-	204,791	244,790
Pledges Receivable	-	225,471	-	225,471	273,524
Inventory	2,064,320	-	-	2,064,320	1,813,152
Prepaid Expenses and Other Assets	504,569	-	323,668	828,237	416,028
Investments (Note 4)	7,061,478	-	6,166,022	13,227,500	9,659,222
Land, Building and Equipment, Net (Note 5)	-	-	6,298,186	6,298,186	6,240,122
TOTAL ASSETS	\$ 12,410,318	\$ 392,211	\$ 12,787,876	\$ 25,590,405	\$ 22,334,447
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts Payable	\$ 427,335	\$ -	\$ -	\$ 427,335	\$ 229,769
Accrued Expenses	353,161	-	-	353,161	203,263
Deferred Revenue (Note 6)	14,453	-	-	14,453	171,025
Total Liabilities	794,949	-	-	794,949	604,057
NET ASSETS:					
Unrestricted Net Assets:					
Undesignated	517,758	-	-	517,758	760,684
Board Designated (Note 9)	11,097,611	-	6,166,022	17,263,633	13,846,785
Land, Building and Equipment	-	-	6,621,854	6,621,854	6,336,454
Total Unrestricted Net Assets	11,615,369	-	12,787,876	24,403,245	20,943,923
Temporarily Restricted Net Assets (Note 10)	-	392,211	-	392,211	786,467
Total Net Assets	11,615,369	392,211	12,787,876	24,795,456	21,730,390
TOTAL LIABILITIES AND NET ASSETS	\$ 12,410,318	\$ 392,211	\$ 12,787,876	\$ 25,590,405	\$ 22,334,447

The Accompanying Notes are an Integral Part of these Financial Statements.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007 with Comparative Totals for the Year Ended June 30, 2006

	2007		2006	
	Unrestricted	Temporarily Restricted	TOTAL	TOTAL
SUPPORT AND REVENUE:				
Support:				
Contributions	\$ 13,635,641	\$ 249,136	\$ 13,884,777	\$ 11,056,211
Contributions In-Kind (Note 11)	30,020,559	-	30,020,559	26,954,162
Special Events	184,114	-	184,114	198,679
Less: Direct Donor Benefits	(62,689)	-	(62,689)	(70,972)
United Way Support	-	143,075	143,075	183,876
Total Support	43,777,625	392,211	44,169,836	38,321,956
Revenue:				
Governmental Assistance - Cash	1,385,561	-	1,385,561	1,227,491
Governmental Assistance - In-Kind	1,235,834	-	1,235,834	1,664,633
Service Fees	131,743	-	131,743	141,163
Net Investment Income (Note 4)	1,464,032	-	1,464,032	827,854
Loss on Sale of Equipment	(1,626)	-	(1,626)	(32,742)
Other Income	27,119	-	27,119	15,620
Total Revenue	4,242,663	-	4,242,663	3,844,019
Total Support and Revenue	48,020,288	392,211	48,412,499	42,165,975
Net Assets Released from Restrictions (Note 12)	786,467	(786,467)	-	-
Total Support, Revenue and Net Assets Released from Restrictions	48,806,755	(394,256)	48,412,499	42,165,975
EXPENSES:				
Program Services:				
Food Distribution (Note 2)	43,340,006	-	43,340,006	39,431,623
Supporting Services:				
Management and General	822,335	-	822,335	652,879
Fundraising	1,185,092	-	1,185,092	1,045,561
Total Supporting Services Expenses	2,007,427	-	2,007,427	1,698,440
Total Expenses	45,347,433	-	45,347,433	41,130,063
CHANGE IN NET ASSETS	3,459,322	(394,256)	3,065,066	1,035,912
NET ASSETS, Beginning of Year	20,943,923	786,467	21,730,390	20,694,478
NET ASSETS, End of Year	\$ 24,403,245	\$ 392,211	\$ 24,795,456	\$ 21,730,390

The Accompanying Notes are an Integral Part of these Financial Statements.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2007 with Comparative Totals for the Year Ended June 30, 2006

	PROGRAM SERVICES		SUPPORTING SERVICES		TOTAL EXPENSES	
	Food Distribution	Management and General	Fundraising	Total	2007	2006
Salaries	\$ 2,984,334	\$ 299,310	\$ 626,742	\$ 926,052	\$ 3,910,386	\$ 3,717,873
Employee Benefits	576,974	80,523	79,668	160,191	737,165	774,706
Payroll Taxes	236,424	27,239	44,958	72,197	308,621	353,721
Total Salaries and Related Expenses	3,797,732	407,072	751,368	1,158,440	4,956,172	4,846,300
Donated Food and Supplies Distributed	30,837,480	-	-	-	30,837,480	28,372,527
Purchased Food and Supplies Distributed	5,570,093	-	-	-	5,570,093	4,439,307
Outside Services	411,476	61,528	61,138	122,666	534,142	230,764
Occupancy, Including In-Kind	452,831	27,371	32,151	59,522	512,353	488,861
Freight and Storage	413,444	-	-	-	413,444	454,253
Advertising and Media, Including In-Kind	391,745	-	-	-	391,745	323,173
Postage and Printing, Including In-Kind	238,585	5,199	7,460	12,659	251,244	226,348
Vehicle Operating Costs	217,079	-	-	-	217,079	198,215
Direct Mailing Costs, Including In-Kind	-	-	205,520	205,520	205,520	213,493
Equipment Rental and Maintenance	149,152	8,364	25,136	33,500	182,652	133,921
Professional Fees, Including In-Kind	28,195	128,741	2,065	130,806	159,001	162,550
Supplies, Including In-Kind	140,182	9,864	6,520	16,384	156,566	127,186
Insurance	143,495	7,974	-	7,974	151,469	153,497
Telephone	65,712	11,944	8,205	20,149	85,861	86,516
Recruitment Expenses	1,271	61,153	12,490	73,643	74,914	6,161
Conferences, Conventions and Meetings	13,518	15,621	7,629	23,250	36,768	21,442
Dues and Subscriptions	1,438	20,568	3,815	24,383	25,821	25,624
Travel	7,978	6,875	2,762	9,637	17,615	9,011
Volunteer Expenses	17,372	-	-	-	17,372	12,933
Affiliation Fees (Note 13)	15,280	-	-	-	15,280	10,072
Total Expenses Before Depreciation	42,914,058	772,274	1,126,259	1,898,533	44,812,591	40,542,154
Depreciation and Amortization	425,948	50,061	58,833	108,894	534,842	587,909
Total Functional Expenses	\$ 43,340,006	\$ 822,335	\$ 1,185,092	\$ 2,007,427	\$ 45,347,433	\$ 41,130,063
Percentage of Total	95.6 %	1.8 %	2.6 %	4.4 %	100.0 %	

The Accompanying Notes are an Integral Part of these Financial Statements.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS

Year Ended June 30, 2007 with Comparative Totals for the Year Ended June 30, 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 3,065,066	\$ 1,035,912
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	534,842	587,909
Donated Investments	(18,288)	(6,795)
Loss on Sale of Equipment	1,626	32,742
Donated Vehicle and Equipment	-	(220,186)
In-Kind Contributions of Food and Non-Food (Including USDA)	(30,772,100)	(27,960,738)
Distribution of Food and Non-Food Received In-Kind	30,837,480	28,302,626
Realized and Unrealized Gains on Investments	(1,073,981)	(540,081)
(Increase) Decrease in Assets:		
Accounts Receivable	(7,532)	(533)
Grants Receivable	39,999	(44,748)
Pledges Receivable	48,053	(202,277)
Purchased Inventory (Food)	(316,547)	(77,390)
Prepaid Expenses and Other Assets	(412,209)	(97,024)
Increase (Decrease) in Liabilities:		
Accounts Payable	197,566	105,984
Accrued Expenses	149,897	(28,956)
Deferred Revenue	(156,572)	78,468
Net Cash Provided by Operating Activities	<u>2,117,300</u>	<u>964,913</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Equipment	(595,181)	(191,313)
Proceeds from Sale of Equipment	650	24,200
Purchase of Investments	(5,271,268)	(3,036,134)
Proceeds from Sale of Investments	<u>2,795,258</u>	<u>3,613,241</u>
Net Cash Provided (Used) by Investing Activities	<u>(3,070,541)</u>	<u>409,994</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(953,241)</u>	<u>1,374,907</u>
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>3,679,589</u>	<u>2,304,682</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 2,726,348</u>	<u>\$ 3,679,589</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION:

Second Harvest Food Bank of Santa Clara and San Mateo Counties ("Agency" or "Second Harvest") is a nonprofit 501(c)(3) organization incorporated in 1979. The Agency's service area covers a population of 2.4 million where nearly 170,000 people live below the federal poverty line (FPL). With the area's high cost of living, even families living at 300% - 400% of the FPL are struggling to afford enough to eat. The Agency provides food through both direct distribution and by supplying food to hundreds of area nonprofit programs.

Second Harvest procures large food donations through corporate food drives, from the USDA and FEMA, and through membership in America's Second Harvest. But simply distributing donated food would not provide nutritious, nor balanced, meals. The Agency spent approximately \$6.5 million procuring, packaging and transporting protein and other food to supplement donated items; ensuring nutritious meals to 163,184 people per month. This involved the distribution of 31.7 million pounds of food, equivalent to about 24.8 million meals and up 8% over last year, making the agency the 11th largest food bank in the nation based on pounds distributed per person in poverty as reported in America's Second Harvest 2006 Annual Poundage Report (Table POU46) "Percentage on Need Met Within Service Area, Based on Meals Provided".

NOTE 2 - PROGRAM SERVICES:

The Agency's Direct Service Programs, distributed at 127 sites, include:

- Brown Bag - Groceries provided on a weekly basis to an average of 12,604 people: for seniors and disabled individuals on fixed incomes.
- Family Harvest - Groceries provided monthly to low-income families with dependent children serving an average of 13,010 individuals per month.
- Partners in Need - Weekly groceries for an average of 374 people in exchange for volunteer hours.

Indirect and Community Service Programs:

Second Harvest's Food Assistance Program supports 431 community-based nonprofit organizations running through 821 different sites. The Agency removes much of the burden for those managing food programs by providing free highly nutritious foods, appropriate storage and handling, delivery options, as well as training workshops. These hundreds of community programs can focus their resources on their own primary missions, not on procuring food.

Food Connection, a phone referral program, further ensures that those in need have access to nutritious food. In the past year, Food Connection helped thousands of people each month and made 31,832 referrals to Second Harvest's food program partners. Community Nutrition offers training, workshops and technical assistance to agencies and program participants in the areas of nutrition education, food safety and handling practices.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - PROGRAM SERVICES (Continued):

Our Support - The Agency has strong donor and volunteer support. 28,901 individuals made donations and 966 companies ran food drives or donated funds. Every month volunteers worked an average of 15,608 hours on Second Harvest's behalf: the equivalent of 90 full-time employees and more manpower than the Agency employs. This saved the Agency over \$3.1 million in wages in the past year.

New Programs - After achieving goals set out in a three year Strategic Plan, the Agency recently conducted a Food Gap Analysis that showed tremendous need still exists in the community. Approximately half the need is being met even when considering all food programs, including Food Stamps. As Second Harvest develops a new plan, the focus is on procuring and distributing more food, especially fresh produce. The Agency's Board of Directors has designated approximately \$3.6 million of reserves to grow capacity over the next few years.

In January 2007, Second Harvest conducted 18 agency focus groups throughout Santa Clara and San Mateo Counties. The focus groups enabled Second Harvest to better understand the needs and concerns of over 300 partner agencies. The agencies indicated a need for more food, and also requested improved quality and access. Based on these findings, the Programs and Services Committee of Second Harvest developed three goals:

- Provide low-income families, seniors, and individuals with more food
- Deliver wholesome, healthy food
- Address access issues so low-income families, seniors, and individuals can get the food they need

In response to these goals, Second Harvest launched new programs and augmented existing ones.

A new program that responds to Second Harvest's goal to deliver wholesome, healthy food to their clients is the Produce Mobile. The Produce Mobile is a refrigerated truck that brings high-quality, fresh produce to Family Harvest sites.

To address the special nutritional needs of Second Harvest's senior clients, the Agency has augmented their Brown Bag Program to regularly provide calcium-rich dairy products and foods that are low in salt and sugar.

Another program that responds to the Agency's goal to increase their clients' access to food is called the Mobile Pantry. This program involves delivering pre-packaged food to clients who live in densely populated communities that are relatively isolated because there are no full-service grocery stores within walking distance and residents often lack transportation.

To help individuals maximize the food assistance resources available to them, Second Harvest has partnered with the County of Santa Clara to increase Food Stamp outreach. Food Stamps are one of the most readily available yet under utilized avenues through which low-income families, seniors and individuals can receive food. Second Harvest Food Bank is streamlining the application process so that these federal benefits will be distributed faster to those in need, many of whom are unaware that they are eligible to receive assistance.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The financial statements of Second Harvest Food Bank of Santa Clara and San Mateo Counties have been prepared on the accrual basis of accounting.

Basis of Presentation - The Agency follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Non-for-Profit Organizations*, the Agency reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Agency. Under this category, the Agency maintains an operating fund, any net assets designated by the Board for specific purposes and the unrestricted land, building and equipment fund.

Temporarily restricted net assets include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments.

Land, building and equipment funds are designated for equipment acquisitions and for recording the cost of the land, building, equipment and accumulated depreciation. The net asset value of those items that are temporarily or permanently restricted are included in the appropriate net asset category, otherwise the net asset value is included in unrestricted net assets.

Comparative Financial Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2006, from which the summarized information was derived.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Revenue Recognition - The Agency recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Contributions - Contributions are reported in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets. If a donor's restriction is met in the same period that the revenue is recognized, the contribution is reported as an increase in unrestricted net assets.

Contributions In-Kind - Contributions in-kind are also recognized in accordance with the provisions of SFAS No. 116. Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Agency would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Agency also receives donated services that do not require specific expertise but which are nonetheless central to the Agency's operations. While these contributed services are not reflected in the financial statements the estimated value of these services is disclosed in Note 11.

Cash and Cash Equivalents - Cash equivalents include highly liquid investments and investments with a maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. The Agency maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Agency has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Accounts, Grants and Pledges Receivable - The Agency considers all accounts, grants and pledges receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Inventory - Inventory consists of donated food and non-food items, purchased food and United States Department of Agriculture (USDA) commodities received from the government. Donated food for the years ended June 30, 2007 and 2006 was valued at \$1.69 and \$1.50 per pound, respectively. This valuation is based on a cost study conducted for America's Second Harvest. Purchased food is valued at latest purchase price. USDA commodities are valued based on published USDA fair market values.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains or losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Land, Building and Equipment - Land, building and equipment are recorded at cost or estimated fair value for donated items. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 30 years. Equipment purchases over \$5,000 are capitalized. Depreciation is recorded as a decrease in unrestricted net assets and the expense is charged to the activity benefiting from the use of the facilities or equipment. Amounts expended for maintenance and repairs are charged to operations as incurred.

Accrued Flexible Time Off (FTO) - During the year ended June 30, 2007 the Agency implemented a flexible time off program. Accrued FTO represents vacation and sick time earned, but not taken as of June 30, 2007. Previously, the Agency's policy for payment on termination accounted for vacation time only, but not for sick time. The Agency has modified its policy to include sick time, which increases the accrued FTO. The maximum FTO that can be accrued and carried over to the next year is 300 hours. The accrued FTO balance as of June 30, 2007 and 2006 was \$261,574 and \$133,005, respectively, and is included in accrued expenses.

Allocation of Functional Expenses - Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of periodic time studies.

Income Taxes - Second Harvest Food Bank of Santa Clara and San Mateo Counties is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements.

Advertising - Advertising costs are charged to operations when incurred. Advertising costs for the years ended June 30, 2007 and 2006 totaled \$391,745 and \$323,173, respectively. The total cost for the years ended June 30, 2007 and 2006 includes \$359,498 and \$275,000 in donated advertising, respectively.

NOTE 4 - INVESTMENTS:

The Agency's investment policy is to maintain a moderately conservative but balanced portfolio, with the primary investment objectives being the preservation of purchasing power and the preservation of capital. The Agency's investment portfolio is structured and maintained with the overall objective of providing the resources and liquidity for the Agency to fulfill its Mission Statement. The fair value of investments as of June 30, was as follows:

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - INVESTMENTS (Continued):

	<u>2007</u>	<u>2006</u>
Investments at Fair Value:		
Money Market Investments	\$ 990,384	\$ 538,162
Certificates of Deposit	-	103,945
U.S. Government Securities and Agency Obligations	3,256,071	1,922,032
Corporate Bonds and Notes	1,889,903	1,331,627
Equity Investments	6,461,537	5,247,778
Mutual Funds	<u>629,605</u>	<u>515,678</u>
Total Investments at Fair Value	<u>\$ 13,227,500</u>	<u>\$ 9,659,222</u>
Net Investment Income:		
Interest and Dividends, Net of Investment		
Expenses of \$90,161 and \$58,905	\$ 390,051	\$ 287,773
Net Realized and Unrealized Gains	<u>1,073,981</u>	<u>540,081</u>
Total Net Investment Income	<u>\$ 1,464,032</u>	<u>\$ 827,854</u>

NOTE 5 - LAND, BUILDING AND EQUIPMENT:

The cost and accumulated depreciation of land, building and equipment as of June 30, consisted of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 838,453	\$ 838,453
Building and Improvements	7,924,722	7,888,263
Equipment	<u>3,389,090</u>	<u>3,267,116</u>
	12,152,265	11,993,832
Less: Accumulated Depreciation	<u>(5,854,079)</u>	<u>(5,753,710)</u>
Land, Building and Equipment, Net	<u>\$ 6,298,186</u>	<u>\$ 6,240,122</u>

Depreciation expense for the years ended June 30, 2007 and 2006 totaled \$534,842 and \$587,909, respectively.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 6 - DEFERRED REVENUE:

The Agency's deferred revenue as of June 30, consisted of the following:

	<u>2007</u>	<u>2006</u>
Golf Tournament Deposits	\$ -	\$ 91,915
Federal Emergency Management Agency	14,453	78,910
Other	<u>-</u>	<u>200</u>
Total Deferred Revenue	<u>\$ 14,453</u>	<u>\$ 171,025</u>

NOTE 7 - RETIREMENT PLAN:

The Agency maintains a tax deferred 403(b) retirement plan to provide retirement benefits for all eligible employees. The plan provides for Agency contributions of 5% of eligible employee compensation. Vesting is based on years of service, with 100% vesting after six years of credited service. Agency contributions for the years ended June 30, 2007 and 2006 were \$106,054 and \$126,482, respectively. All of the costs of the Plan's administration were paid for by participants.

NOTE 8 - OPERATING LEASE COMMITMENTS:

The Agency leases from the County of Santa Clara the land on which the San Jose distribution center is located. The lease term is 50 years, commencing July 30, 1991, at the rate of \$1 per year, with three 10-year renewal options. In the event the premises cease to be used as a nonprofit food collection and distribution facility, the County of Santa Clara has the right to terminate the lease. Due to the impracticality of determining the fair value of the lease, the financial statements do not include an in-kind contribution for this amount.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 9 - BOARD DESIGNATED NET ASSETS:

Board designated net assets as of June 30, consisted of the following:

	<u>2007</u>	<u>2006</u>
Unrestricted Operating Fund:		
Designated for Operating Reserves	\$ 7,326,027	\$ 6,395,830
Designated for Disaster Relief	1,707,264	1,365,811
Inventory	<u>2,064,320</u>	<u>1,813,152</u>
Total Unrestricted Operating Fund	<u>11,097,611</u>	<u>9,574,793</u>
Land, Building and Equipment Fund:		
Designated for Capacity Building Fund	3,604,973	2,200,000
Designated for Capital Replacement Fund	<u>2,561,049</u>	<u>2,071,992</u>
Total Land, Building and Equipment	<u>6,166,022</u>	<u>4,271,992</u>
Total Board Designated Net Assets	<u>\$ 17,263,633</u>	<u>\$ 13,846,785</u>

As part of the Agency's annual review of designated assets, the Board recently adopted specific guidelines for establishing the level of each designation. Operating Reserves include a full six months of the coming year's annual budget, with adjustments for purchased inventory on hand and current liabilities. Disaster Relief funds are based on the cost of meals expected to be provided immediately following a local disaster. Long-term disaster support would be funded through government agreements. Current investment in inventory is reviewed on a monthly basis and is generally below one month's distribution. The Capital Replacement designation is calculated as the present-value of a ten year current asset replacement plan. The Capacity Building Fund designation is based on expectations that the Agency will be pursuing significant distribution capacity building, as part of a strategic plan, in the next one to five years.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS:

The Agency's temporarily restricted net assets as of June 30, consisted of the following:

	<u>2007</u>	<u>2006</u>
Temporarily Restricted Net Assets:		
Equipment Purchase	\$ -	\$ 270,300
Family Harvest	-	192,234
Season of Sharing	128,340	144,792
Warehouse Bar Coding	-	91,075
General Support for Next Year	-	60,000
United Way Allocation and Designations for Next Year	143,075	23,918
Staff Holiday	-	3,000
Hurricane Relief	-	1,148
Sequoia Children Nutrition	85,796	-
Strategic Planning	<u>35,000</u>	<u>-</u>
Total Temporarily Restricted Net Assets	<u>\$ 392,211</u>	<u>\$ 786,467</u>

NOTE 11 - CONTRIBUTIONS IN-KIND:

The estimated fair value of donated food, supplies and expert services received are recorded as contributions. Donated food for the years ended June 30, 2007 and 2006 was valued at \$1.69 and \$1.50 per pound, respectively. This valuation is based on a cost study conducted for America's Second Harvest. Purchased food is valued at latest purchase price. USDA commodities are valued based on published USDA fair market values. During the years ended June 30, the following in-kind contributions were received by the Agency:

	<u>2007</u>	<u>2006</u>
Food and Non-Food Inventory	\$ 29,547,605	\$ 26,334,331
Media	359,498	275,000
Vehicle and Equipment	-	220,186
Warehouse Space	99,450	80,988
Professional Services	3,490	18,725
Gift Certificates	5,349	16,979
Racks and Supplies	2,363	6,849
Printing	-	1,104
Mailings	<u>2,804</u>	<u>-</u>
Total Contributions In-Kind	<u>\$ 30,020,559</u>	<u>\$ 26,954,162</u>

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 11 - CONTRIBUTIONS IN-KIND (Continued):

The Agency also receives donated services that do not require specific expertise but which are nonetheless central to the Agency's operations. For the years ended June 30, 2007 and 2006 the estimated value of these services, based on the estimated dollar value of volunteer time calculated by average rate by job category, totaled \$3,146,867 and \$3,018,049, respectively. In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, the value of these services is not reflected in the financial statements.

NOTE 12 - NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

	<u>2007</u>
Net Assets Released from Restrictions:	
Equipment Purchase	\$ 270,300
Family Harvest	192,234
Season of Sharing	144,792
Warehouse Bar Coding	91,075
General Support for Next Year	60,000
United Way Allocation and Designations for Next Year	23,918
Staff Holiday	3,000
Hurricane Relief	<u>1,148</u>
Total Net Assets Released from Restrictions	<u>\$ 786,467</u>

NOTE 13 - PAYMENTS TO AFFILIATES:

In accordance with the affiliation agreement between America's Second Harvest and the Second Harvest Food Bank of Santa Clara and San Mateo Counties, the Agency pays fees based on total poundage of food received from America's Second Harvest. Affiliation payments for the years ended June 30, 2007 and 2006 were \$15,280 and \$10,072, respectively.

NOTE 14 - CONFLICT OF INTEREST POLICY:

Included among the Agency's Board of Directors and Officers are volunteers from the community who provide valuable assistance to the Agency in the development of policies and programs and in the evaluation of business transactions. The Agency has adopted a conflict of interest policy whereby board members are disqualified from participation in the final decisions regarding any action affecting their related company or organization.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - CONTINGENCIES:

Grants and contracts awarded to Second Harvest Food Bank of Santa Clara and San Mateo Counties are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred against the grants do not comply with the established criteria that govern them. In such cases, the Agency could be held responsible for repayments to the funding agency for the costs or be subject to the reductions of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the contracts and grants administered during the period.

SECTION II

SUPPLEMENTARY INFORMATION

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

Government Grantor Pass-through Grantor Program Title	Federal CFDA Number	Grant Period/ Period in Current Fiscal Year	Pass-through Grantor's Number/ Grant Number	Award Amount	Receivable (Deferred Revenue) From Prior Year	Receipt of Federal Awards	Federal Expenditures	Receivable (Deferred Revenue) at June 30, 2007
MAJOR PROGRAMS								
<u>U.S. Department of Agriculture</u> Passed through: State of California Department of Social Services: Emergency Food Assistance Program (Food Commodities) (Note A)	10.569	7-1-06 to 6-30-07		1,197,414	-	1,197,414	1,201,723	-
NON-MAJOR PROGRAMS								
<u>U.S. Department of Agriculture</u> Passed through: State of California Department of Social Services: Emergency Food Assistance Program (Administrative Costs)	10.568	7-1-05 to 6-30-06	L61059	-	31,716	31,716	-	-
Emergency Food Assistance Program (Administrative Costs)	10.568	7-1-06 to 6-30-07	L61059	124,057	-	94,445	124,057	29,612
Emergency Food Assistance Program (Tax Check Off)	10.568	7-1-06 to 6-30-07		13,956	-	13,956	13,956	-
Emergency Food Assistance Program (Supplemental Funds)	10.568	7-1-06 to 6-30-07		3,200	-	3,200	3,200	-
Total U.S. Department of Agriculture				141,213	31,716	143,317	141,213	29,612
<u>U.S. Department of Health and Human Services</u> CNN - Food Stamp Outreach				78,828	13,263	29,055	78,828	63,036
CNN - Nutrition Education				39,151	41,445	55,630	39,151	24,966
Total U.S. Department of Health and Human Services				117,979	54,708	84,685	117,979	88,002

NOTE A - Emergency Food Assistance Program (Food Commodities):
Nonmonetary assistance is reported in the schedule at the USDA fair value of the commodities received. At June 30, 2007, the Agency had USDA food commodities totaling \$106,686 in inventory.

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Year Ended June 30, 2007

Government Grantor Pass-through Grantor Program Title	Federal CFDA Number	Grant Period/ Period in Current Fiscal Year	Pass-through Grantor's Number/ Grant Number	Award Amount	Receivable (Deferred Revenue) From Prior Year	Receipt of Federal Awards	Federal Expenditures	Receivable (Deferred Revenue) at June 30, 2007
<u>NON-MAJOR PROGRAMS (Continued)</u>								
<u>Federal Emergency Management Agency</u>								
<u>Direct Program:</u>								
Emergency Food and Shelter National Board Program (Santa Clara County)	83.523	10-1-05 to 9-30-06 10-1-06 to 9-30-07	24-0880-00 007 Phase XXIV	- 135,000	(1,716) -	67,194 135,000	68,910 120,706	- (14,294)
Emergency Food and Shelter National Board Program (Santa Mateo County)	83.523	1-1-06 to 12-31-06 1-1-07 to 12-31-07 1-1-07 to 12-31-07	24-0880-00 007 Phase XXIV	- 27,500 -	2,500 - -	12,500 13,591 159	10,000 27,341 -	- 13,750 (159)
Total Federal Emergency Management Agency				162,500	784	228,444	226,957	(703)
<u>U.S. Department of Housing and Urban Development</u>								
<u>Community Development Block Grants, passed through:</u>								
City of Campbell	14.218	7-1-06 to 6-30-07	N/A	7,200	-	7,200	7,200	-
City of Colma	14.218	7-1-06 to 6-30-07	N/A	2,500	-	2,500	2,500	-
City of Cupertino	14.218	7-1-06 to 6-30-07	N/A	3,511	-	2,634	3,511	877
City of Daly City	14.218	7-1-06 to 6-30-07	N/A	9,000	-	6,750	9,000	2,250
City of Gilroy	14.218	7-1-06 to 6-30-07	N/A	5,700	-	5,700	5,700	-
City of Menlo Park	14.218	7-1-06 to 6-30-07	N/A	6,650	-	-	6,650	6,650
City of Milpitas	14.218	7-1-05 to 6-30-06 7-1-06 to 6-30-07	N/A N/A	- 5,000	1,250 -	1,250 3,750	- 5,000	- 1,250
City of Morgan Hill	14.218	7-1-05 to 6-30-06 7-1-06 to 6-30-07	N/A N/A	- 4,165	1,041 -	1,041 4,165	- 4,165	- -
City of Mountain View	14.218	7-1-05 to 6-30-06 7-1-06 to 6-30-07	N/A N/A	- 3,757	1,185 -	1,185 1,879	- 3,757	- 1,878
City of Palo Alto	14.218	7-1-05 to 6-30-06 7-1-06 to 6-30-07	N/A N/A	- 7,372	1,843 -	1,843 5,529	- 7,372	- 1,843
City of Redwood City	14.218	7-1-06 to 6-30-07	N/A	5,000	-	5,000	5,000	-
City of San Jose	14.218	7-1-05 to 6-30-06 7-1-06 to 6-30-07	N/A N/A	- 17,687	4,422 -	4,422 13,265	- 17,687	- 4,422
City of San Mateo	14.218	7-1-05 to 6-30-06	N/A	-	2,500	2,500	-	-

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Year Ended June 30, 2007

Government Grantor Pass-through Grantor Program Title	Federal CFDA Number	Grant Period/ Period in Current Fiscal Year	Pass-through Grantor's Number/ Grant Number	Award Amount	Receivable (Deferred Revenue) From Prior Year	Receipt of Federal Awards	Federal Expenditures	Receivable (Deferred Revenue) at June 30, 2007
NON-MAJOR PROGRAMS (Continued)								
Community Development Block Grants, passed through (Continued):								
City of Santa Clara	14.218	7-1-06 to 6-30-07	N/A	9,135	-	6,851	9,135	2,284
		7-1-05 to 6-30-06	N/A	-	1,219	1,219	-	-
City of South San Francisco	14.218	7-1-06 to 6-30-07	N/A	5,873	-	3,065	5,873	2,808
		7-1-05 to 6-30-06	N/A	-	1,000	1,000	-	-
City of Sunnyvale	14.218	7-1-06 to 6-30-07	N/A	4,500	-	3,375	4,500	1,125
Town of Los Gatos	14.218	7-1-06 to 6-30-07	N/A	4,569	-	4,569	4,569	-
		7-1-06 to 6-30-07	N/A	3,802	-	2,852	3,802	950
Total U.S. Department of Housing and Urban Development				105,421	14,460	93,544	105,421	26,337
Total Federal Awards				1,724,527	101,668	1,747,404	1,793,293	143,248
OTHER GOVERNMENTAL AWARDS								
Santa Clara County - Department of Social Services	N/A	7-1-05 to 6-30-06	N/A	-	33,729	33,729	-	-
	N/A	7-1-06 to 6-30-07	N/A	705,075	-	679,897	705,075	25,178
San Mateo County - Department of Social Services	N/A	7-1-05 to 6-30-06	N/A	-	14,915	14,915	-	-
	N/A	7-1-06 to 6-30-07	N/A	48,450	-	36,338	48,450	12,112
	N/A	7-1-06 to 6-30-07	N/A	12,998	-	9,749	12,998	3,249
Aging and Adult Services of San Mateo (Gift Certificates)	N/A	7-1-06 to 6-30-07	N/A	38,420	-	38,420	38,420	-
Aging and Adult Services of San Mateo	N/A	7-1-05 to 6-30-06	N/A	-	4,059	4,059	-	-
	N/A	7-1-05 to 6-30-06	N/A	-	11,510	11,510	-	-
	N/A	7-1-06 to 6-30-07	N/A	27,470	-	20,920	27,470	6,550
Total Other Governmental Awards				832,413	64,213	849,537	832,413	47,089
TOTAL GOVERNMENTAL AWARDS				<u>\$ 2,556,940</u>	<u>\$ 165,881</u>	<u>\$ 2,596,941</u>	<u>\$ 2,625,706</u>	<u>\$ 190,337</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Second Harvest Food Bank of Santa Clara and San Mateo Counties and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SECTION III

REPORTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Second Harvest Food Bank of Santa Clara and San Mateo Counties
(A California Nonprofit Public Benefit Corporation)
San Jose, California

We have audited the financial statements of Second Harvest Food Bank of Santa Clara and San Mateo Counties (a California nonprofit public benefit corporation) as of and for the year ended June 30, 2007, and have issued our report thereon dated August 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Second Harvest Food Bank of Santa Clara and San Mateo Counties' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest Food Bank of Santa Clara and San Mateo Counties' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Second Harvest Food Bank of Santa Clara and San Mateo Counties' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Second Harvest Food Bank of Santa Clara and San Mateo Counties in separate letter dated August 31, 2007.

This report is intended solely for the information and use of management, the audit committee, others within the Agency, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Berger/Lewis Accountancy Corporation". The script is cursive and fluid, with the company name written in a single line.

BERGER/LEWIS ACCOUNTANCY CORPORATION
San Jose, California
August 31, 2007

EMERITUS

Alexander W. Berger (1916-2005)
Griffith R. Lewis

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

To the Board of Directors
Second Harvest Food Bank of Santa Clara and San Mateo Counties
(A California Nonprofit Public Benefit Corporation)
San Jose, California

Compliance

We have audited the compliance of Second Harvest Food Bank of Santa Clara and San Mateo Counties (a California nonprofit public benefit corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Second Harvest Food Bank of Santa Clara and San Mateo Counties' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Second Harvest Food Bank of Santa Clara and San Mateo Counties' management. Our responsibility is to express an opinion on Second Harvest Food Bank of Santa Clara and San Mateo Counties' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Second Harvest Food Bank of Santa Clara and San Mateo Counties' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Second Harvest Food Bank of Santa Clara and San Mateo Counties' compliance with those requirements.

In our opinion, Second Harvest Food Bank of Santa Clara and San Mateo Counties complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Second Harvest Food Bank of Santa Clara and San Mateo Counties is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Second Harvest Food Bank of Santa Clara and San Mateo Counties' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Second Harvest Food Bank of Santa Clara and San Mateo Counties' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, others within the Agency, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



BERGER/LEWIS ACCOUNTANCY CORPORATION
San Jose, California
August 31, 2007

SECTION IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of Second Harvest Food Bank of Santa Clara and San Mateo Counties.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Second Harvest Food Bank of Santa Clara and San Mateo Counties, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Second Harvest Food Bank of Santa Clara and San Mateo Counties expresses an unqualified opinion on all major federal programs.
6. No audit findings which would be required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program included: Emergency Food Assistance Program (Food Commodities) - CFDA 10.569.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Second Harvest Food Bank of Santa Clara and San Mateo Counties qualified as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT:

None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT:

U.S. DEPARTMENT OF AGRICULTURE

Name of program - Emergency Food Assistance Program (Food Commodities)

CFDA No. - 10.569

Grant period - 7/1/06 to 6/30/07

None

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2007

NONE